## SR-35 - PRINTERS AND PRINTING

Sales of catalogues, books, letterheads, bills, envelopes, folders, advertising circulars, and other printed matter are taxable retail sales if the purchaser does not resell the articles but uses or consumes them as by distributing them free. Except as herein stated, a printer may not deduct from the selling price any charge for labor or service in performing the printing, even though the labor or service charges may be billed separately from the charge for stock. The labor or service is expended in the production of the article sold; consequently, it is manufacturing labor incorporated in the product.

If separately stated on the invoice the services of typesetting, color separation, and design, art and camera mechanicals performed by a printer or his subcontractor for a customer or another printer is not taxable.

On commercial printing of postal cards or stamped envelopes purchased from the United States Postal Service, the amount subject to tax does not include the amount of postage involved.

Printed matter which is partially printed, invoiced to the customer, held in stock for further imprinting, and finally invoiced for subsequent imprinting is taxable on the full price charged by the printer for the item. Sales tax must be collected on the selling price of each part of the job. The subsequent imprinting before delivery is deemed to be completion of the initial sale, not a separate transaction.

Exempt purchases of tangible personal property for resale include:

- (1) **Paper:** Newsprint; stock on which the finished product is printed and delivered to the customer; and wrapping materials for finished products sold to customers.
- (2) **Ink:** Printers ink, ink additives, and overprint varnishes.
- (3) **Chemicals:** Anti-offset sprays, fountain etch solutions, gum solutions, and all component chemicals when used with the above materials.
- (4) **Materials:** Padding compound, stitching wire and staples, and bookbinders tape.
- (5) **Pre-press preparation materials:** Light sensitive film, plates and proofing materials. Said exemption shall be allowed when the procedures as stated below are complied with.

Printers who are just performing a service will be subject to those rules given in the Special Regulations for "Service Enterprises". Printers ink and newsprint are exempt under C.R.S. 1973, 39-26-102(21), but all other above listed items are subject to use tax when applied to property which is not sold.

Pre-press preparation materials (which shall be defined as light sensitive films, plates, and proofing materials) shall qualify as exempt purchases of tangible personal property to

the extent such items are utilized for the production of a specific product for a specific customer and title passes to the customer as part of the total sale, and adequate cost records for the particular job showing amount of pre-press preparation material are retained by the printer. In addition, if the final product is tax exempt because it is being shipped out of state by common carrier or otherwise, it will be necessary for the printer to be responsible for the amount of use tax to the Department. The basis for this requirement is that possession was taken in Colorado by the printer as agent for the customer of the pre-press preparation materials in order to produce the final product which itself is exempt from tax because it is shipped in interstate commerce. If separately invoiced as herein provided, pre-press preparation materials used in the production of a product sold and delivered to a tax exempt entity will not be deemed subject to the payment of use tax by the printer.

Except as herein stated with respect to out of state shipments, in order to avoid liability for the payment of use tax on pre-press preparation materials, the printer must maintain adequate records of such materials in detail as to each specific job, so that the indication of pre-press material designation on the ultimate billing can be determined upon audit and segregated from other pre-press materials, manufacturing aids or plant property. There must be an audit trail which clearly reflects the passing on to the customer of a particular item of pre-press preparation material and collection of sales tax on a particular invoice when such sales are subject to tax.

A printer may at times retain a customer's property in his place of business. When tangible personal property is retained in the printer's place of business, the department may examine the various records applicable to this property, such as who is liable for the payment of insurance and personal property tax on the property, who is allowed to deduct the depreciation expense on the property, and who benefits from salvage of the item, in making a determination of the ownership of the property.